Vancouver’s foreign-buyer tax draws criticism from housing experts

By Alexandra Posadzki
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A tax intended to calm soaring real estate prices in Vancouver may be difficult to enforce because the foreign homebuyers it’s aimed at may be able to get around it, experts say.

The B.C. government’s plans to tackle housing affordability in Metro Vancouver with a 15-per-cent tax for foreign buyers came under scrutiny Monday from housing-market observers.

Foreign nationals could avoid the tax, which would take effect on Aug. 2, by purchasing properties through locals – something that is already suspected to be common practice.

“I would be very surprised to see a lot of people buying houses as foreign individuals or foreign corporations,” said Thomas Davidoff, a professor at the Sauder School of Business at the University of British Columbia.

“The question is, will buyers be able to successfully … hide their identity by having a local permanent resident, a local corporation or a local family member who is a citizen through which they can funnel cash?”

Josh Gordon, an assistant professor at Simon Fraser University who has studied the issue, said it’s common for money made overseas to flow into Vancouver’s real estate market through local residents – for example, a foreign national purchasing a home through a spouse or a child attending a Canadian university.

“Canadian permanent residents can buy properties as proxy buyers and they won’t be subject to this tax, because they won’t be considered foreign buyers,” Mr. Gordon said.

Rather than charging a tax to foreign nationals, Mr. Davidoff said he would have preferred to see a policy that provides tax breaks to homebuyers who can demonstrate they’re paying local income taxes.

“Why drag nationality in when the real question is, ‘Are you a local worker?’” he said.

A number of other jurisdictions have imposed rules restricting foreign investment in their real estate markets, including Hong Kong, Singapore and Australia.

In a report published earlier this year, CIBC economist Benjamin Tal said it was too soon to say whether Australia’s rules – which were implemented in last summer and restrict foreigners to newly built houses and apartments – are having the desired impact.

“But there are some early signs from Australia showing that it’s working,” Mr. Tal said, noting that the share of foreign nationals in new housing demand has fallen.

Mr. Gordon said data from other jurisdictions suggests that taxing foreign investment can help cool housing markets by slowing, and sometimes even reversing, price growth.

“But in terms of achieving affordability, substantially reducing prices, generally speaking these types of surtaxes don’t get you there,” he said.

Complicating matters is the fact that it’s hard to assess whether any particular price movement was the result of the tax policy or some other factor, Mr. Davidoff said.

“It’s very hard to hold all else constant in a major city,” he said.